



# King County

Metropolitan King County Council

King County Auditor's Office

Cheryle A. Broom, *King County Auditor*

King County Courthouse

516 Third Avenue, Room W1033

Seattle, WA 98104-3272

206.296.1655 Fax 206.296.0159

TTY 296-1024

[www.metrokc.gov/auditor](http://www.metrokc.gov/auditor)

## MANAGEMENT LETTER

DATE: April 11, 2007

TO: Metropolitan King County Councilmembers

FROM: Cheryle A. Broom, County Auditor

SUBJECT: 2005 Audit Findings of the Washington State Auditor and  
Deloitte & Touche LLP

This memo discusses our review of the most recent financial and accountability audits performed in King County. These audits were conducted in 2006 and covered the reporting period of January 1, 2005 through December 31, 2005. The areas that were audited were the King County Comprehensive Annual Financial Report (CAFR), the Transit Enterprise Fund, the Wastewater Enterprise Fund, and county accountability.

King County received unqualified (clean) audit reports for the financial audits and a generally positive report for the accountability audit. The one exception in the accountability audit was a disagreement between the county and the State Auditor concerning the use of Real Estate Excise Tax (REET) 2 funds that resulted in a finding. The county is addressing the issue.

### **Background**

Each year the Washington State Auditor's Office (SAO) conducts a financial audit of King County's Comprehensive Annual Financial Report (CAFR) and an (accountability) audit of compliance with applicable legal requirements. Additionally, the King County Transit Enterprise Fund and the Wastewater Enterprise Fund are also audited annually. This year those audits were done by the certified public accounting firm of Deloitte & Touche LLP.

The purpose of the financial audits is to determine whether or not the information presented in the published financial statements is free of material misstatements and can be relied upon to present a true and accurate picture of the county's financial condition. If the auditor determines that the financial information presented is acceptable and reliable, they issue an unqualified (clean) audit report. If auditors conclude that the financial information is not an accurate reflection of the entity under audit, they issue a qualified (unclean) opinion.

In addition, the SAO performs an accountability audit, whose purpose is to determine whether or not the county is in compliance with applicable state laws and regulations.

When the auditors determine that there is an area of concern that needs to be brought to the county's attention, they can issue either a recommendation or a finding. Recommendations are usually addressed in a separate letter given to management at the conclusion of the audit, highlighting what the auditor found and possible solutions. A finding is considered important enough to be included as part of the actual audit report and usually requires immediate attention on the part of the county.

### **2006 Audit Results**

During 2006 there were four audits conducted in King County, covering the reporting period of January 1, 2005 through December 31, 2005:

- Financial audit of King County's Comprehensive Annual Financial Report (CAFR),
- Financial audit of the Transit Enterprise Fund,
- Financial audit of the Wastewater Enterprise Fund, and
- The county accountability audit.

King County received unqualified (clean) audit opinion on all of the financial audits that were conducted in 2006. However, the State Auditor did issue two findings.

In addition, the county received a positive report concerning the accountability audit; the report contained one finding.

### **Summary of Findings**

#### ***Financial Audits***

The SAO reported that King County did not have adequate internal controls over its key financial systems and financial reporting.

The SAO recommended that the county:

- Document processes and controls over financial statement preparation; and
- Develop and follow internal controls adequate to ensure that the general ledger and financial statements accurately represent actual activity and are submitted in a timely manner.

The county concurred with the recommendations and is in the process of addressing the issues.

The SAO also reported that the King County Public Health Department's HIV/AIDS Epidemiology program did not comply with federal grant requirements.

The SAO recommended that the

- County Public Health Department establishes monitoring procedures to ensure compliance with federal grant requirement.

The county concurred with the recommendation and immediately implemented procedures to address the issue.

### ***Accountability Audit***

The State Auditor determined that the county did not comply with state law governing the use of Real Estate Excise Tax (REET) 2 proceeds. While the County disagreed with the finding, it did state that because of the State Auditor's concerns it would seek clarification from the legislature on how REET 2 revenue may be spent. Legislation concerning the usage of REET funds, introduced this session in both the House and the Senate, failed to meet the legislative deadlines.

### **Next Audit Cycle**

One change will occur in the financial audits of fiscal 2006. The Washington State Auditor's Office will conduct the financial audits of the Transit Enterprise Fund and the Wastewater Enterprise Fund. The cost of those audits will be substantially lower than what the county has been paying.

Allan Thompson, CPA, Senior Financial Auditor, conducted this review. Please contact Allan at 296-0378 or me at 296-1655 if you have any questions about the issues discussed in this letter.

CB:AT:jl:SAO Mgmt Ltr.doc

Cc: Ron Sims, County Executive  
Sheryl Whitney, Assistant County Executive  
Bob Cowan, Director, Office of Management and Budget  
Paul Tanaka, County Administrative Officer, Department of Executive Services  
Ken Guy, Division Director, Finance & Business Operations Division, Department of Executive Services  
Dave Lawson, Internal Audit Supervisor, Executive Audit Services  
Shelley Sutton, Policy Staff Director, County Council  
Mike Alvine, Lead Staff, General Government and Labor Relations Committee  
Mark Melroy, Lead Staff, Capital Budget Committee  
William Nogle, Lead Staff, Operating Budget, Fiscal Management and Mental Health Committee